

Water Utilities

| | |
|-----------------------|-------------------|
| Price: | \$42.06 |
| Fair Value Estimate: | \$44.00 |
| 52-Week Range: | \$32.09 - \$42.32 |
| Market Cap (MM): | 9,072 |
| Shr.O/S-Diluted (mm): | 215.7 |
| Average Daily Volume: | 1,024,918 |
| Book Value: | \$11.17 |
| Dividend: | \$0.94 |
| Yield: | 2.2% |

| | | | |
|------------|---------|---------|---------|
| FYE: Dec | 2019E | 2020E | 2021E |
| EPS: | \$1.50E | \$1.56E | \$1.70E |
| Prior EPS: | \$1.39 | \$1.52 | NC |
| P/E Ratio: | 28.0x | 27.0x | 24.7x |

Quarterly EPS:

| | | | |
|----|---------|---------|---------|
| Q1 | \$0.28A | \$0.56E | \$0.59E |
| Q2 | \$0.37A | \$0.19E | \$0.21E |
| Q3 | \$0.44E | \$0.36E | \$0.38E |
| Q4 | \$0.41E | \$0.46E | \$0.51E |

Quarterly Revenue (M):

| | | | |
|-------|----------|----------|----------|
| Q1 | \$201A | \$681E | \$706E |
| Q2 | \$219A | \$392E | \$408E |
| Q3 | \$357E | \$380E | \$397E |
| Q4 | \$560E | \$596E | \$618E |
| Year: | \$1,345E | \$2,048E | \$2,129E |



August 8, 2019

Aqua America, Inc.

(WTR) - BUY

WTR: Solid Quarter, Strong Outlook; Maintain BUY Rating, \$44 Fair Value

PORTFOLIO MANAGER BRIEF

WTR's 2Q19 results met expectations, with adjusted EPS of \$0.37 meeting the consensus forecast. Quarterly results aside, new acquisition opportunities were a dominant topic during the 2Q conference call, and the pipeline of new opportunities appears to have grown substantially larger. We've made minor adjustments to our forward estimates based on the push-out of the Peoples Gas transaction (our estimates now include the combined entity beginning in 4Q19) and we maintain our BUY rating and \$44 Fair Value on WTR shares.

ANALYST NOTES

- 2Q19 Results Inline with Expectations. At the top line, revenues of \$219MM benefitted from growth (\$4MM) and rates & surcharges (\$4MM), with lower consumption providing somewhat of an offset (-\$700K) and other items (-\$300K). At the bottom line, adjusted EPS of \$0.37 met the consensus forecast, but was below our \$0.39 estimate.
- Potential Acquisition Opportunities Are Sizable (and Plentiful). Several large-scale acquisition opportunities have developed in Pennsylvania, which could add substantially to the company's size. During the quarter, WTR signed an exclusive agreement with DELCORA, a large municipal wastewater authority in southeastern PA serving 500K people in 42 municipalities. DELCORA and WTR have committed to exclusive discussions regarding DELCORA's potential acquisition. Also in play in Pennsylvania is the water, wastewater and stormwater systems for the City of Harrisburg, the state capital. Then there's the water system that comprises the Chester Water Authority, which Aqua America has pursued previously. A legal fight is taking place between the Authority and the City of Chester over who owns the assets; the city would like to entertain offers, the Authority wishes to stay independent. Overall, the acquisition environment continues to improve, aided by fair market value legislation across the company's geographic footprint.
- Summary/Valuation. With the Peoples Gas acquisition expected to close in the fall, we've already moved to combined estimates (Aqua + Peoples). We expect to continue to refine our forecasts as more information on timing and cost impacts become available, but we believe our estimates are reasonable given the data already available. The outlook for earnings growth (and dividend increases) looks particularly bright, and just on the base assets. Additional acquisitions of size (if they materialize) would likely add additional upside to our forecasts, given the company's disciplined approach when it comes to purchasing assets. In terms

of valuation, WTR shares still have reasonable upside to our Fair Value of \$44 (based on a P/E of 26x our 2021 EPS estimate of \$1.70) , so we maintain our BUY rating, recommending investors add on dips, should they occur.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Aqua America, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Aqua America, Inc..

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Aqua America, Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Aqua America, Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Aqua America, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

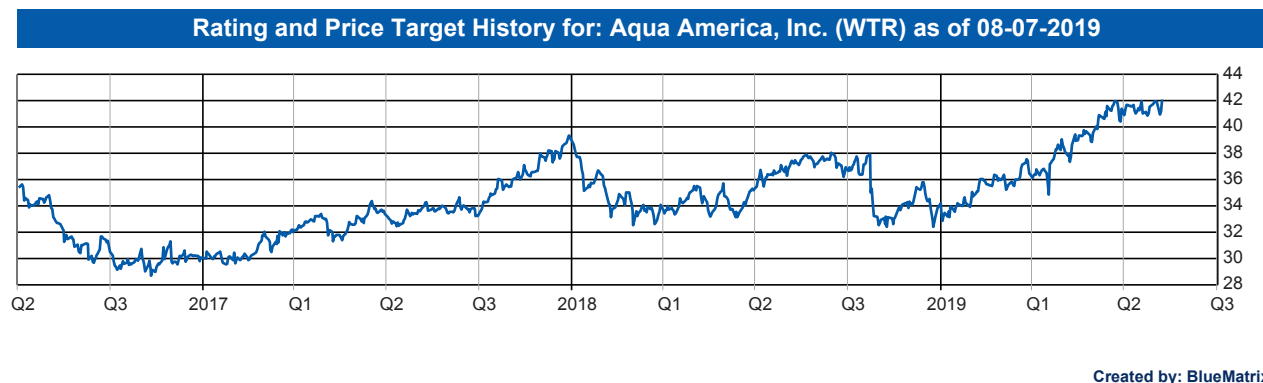
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 06/30/2019

| Rating | Count | Percent | IB Serv./Past 12 Mos.* | |
|--------------------|-------|---------|------------------------|---------|
| | | | Count | Percent |
| BUY [B] | 179 | 55.59 | 40 | 22.35 |
| NEUTRAL [N] | 142 | 44.10 | 14 | 9.86 |
| SELL [S] | 1 | 0.31 | 0 | 0.00 |

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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